

**SIMPSON COUNTY  
SCHOOL DISTRICT**

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**FINANCIAL STATEMENTS**

**June 30, 2005**

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## INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Simpson County School District  
Franklin, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Simpson County School District*** (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash

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flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2005 on our consideration of **Simpson County School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 20 and 60 through 63 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

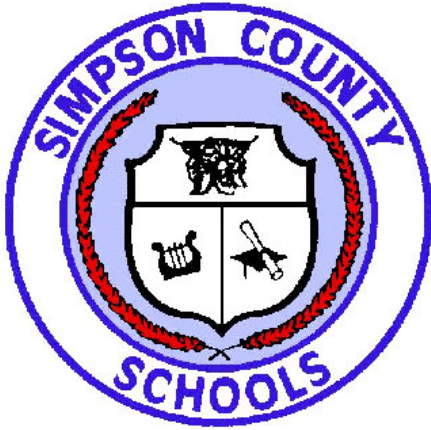
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Simpson County School District's** basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the **Simpson County School District**. The combining and individual nonmajor fund financial statements, other additional information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Holland CPAs, PSC

Russellville, Kentucky  
September 7, 2005

## **Required Supplementary Information**

## **Management's Discussion and Analysis**



**SIMPSON COUNTY SCHOOL DISTRICT  
FRANKLIN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(MD&A)  
YEAR ENDED JUNE 30, 2005**

As management of the Simpson County Public School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning General Fund fund balance for the District was \$3,047,785. The ending General Fund fund balance was \$2,878,374. The primary reason for the decline of \$169,411 in the fund balance was the added initiative for curriculum and the goal for an increase of student achievement by creating positions for Curriculum Instructional Assessment Specialist (CIA's) positions at each school and an increased emphasis on facility improvements. Also, the impact of three years of unfunded mandates in the form of salary increases without the compensating increase in SEEK. SEEK is an acronym for Support Educational Excellence in Kentucky and is the state formula for funding schools. Salaries are recurring expenses that will continue to be an issue to the district to maintain quality employees without the State support of proper funding of mandates.
- There is a noticeable difference reported between the budgetary and the actual revenue and expenditures due to reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement (\$2,729,258) is included in the district's revenues and expenditure. These are recorded within the audit as "On-Behalf Payments".
- The Capital Outlay and FSPK Fund decreased dramatically (from \$608,812 to \$0) due to renovations of two (2) science classrooms at the Franklin-Simpson High School (FSHS), obligation of funds for a roof replacement at the FSHS in the summer of 2005, a matching debt service payment for a Qualified Zone Academy Bond (QZAB) to pre-fund an escrow that over a period of time generates interest for increased bonding capacity. The District ultimately realized an additional \$200,000 in assistance for renovation of the Franklin-Simpson Middle School (FSMS). A cash transfer from the FSPK fund for funding of the FSMS renovation project was also made.

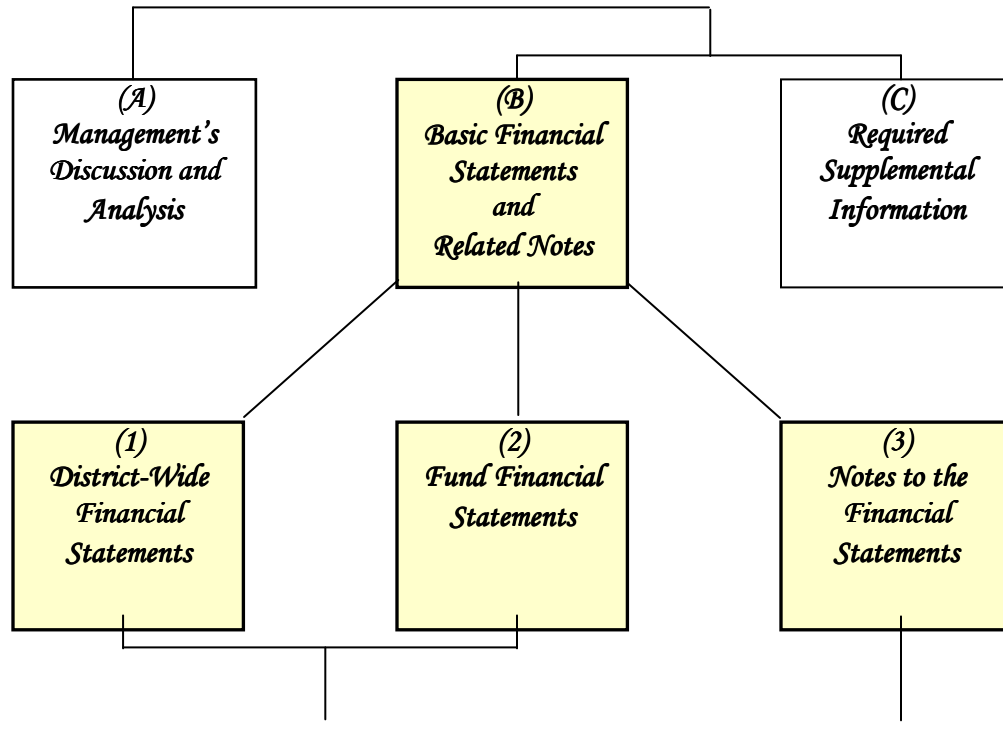
- There was an increase in expenditures due to improvements for the FSHS Baseball Field lighting and field house, with the beginning phase of main campus electrical service upgrade with a partnership with the Electric Plant Board. A bus loop, parking and parent drop off was completed at the FSHS campus. A new entrance “Wildcat Way” was completed at the FSHS campus through a partnership with the City of Franklin. Initiation of the addition/renovation project at the FSMS that will include additional classrooms and a new cafeteria/kitchen was started. An expansion/renovation at Simpson Elementary was started that includes expansion of the cafeteria/front entrance and administrative area, HVAC, interior finishes and roofing improvements. Finally the district implemented a performance contract which allows us to make improvements to the schools that will result in energy and operational savings. The savings are guaranteed and used to pay for the improvements. The facilities improvements implemented in the district will exceed a total of about \$10.5 million.
- The district began the “Thoughtful Classroom” initiative that will increase training and resources for the increased challenges for improved student achievement toward the goal of proficiency for all schools by 2014.

### **Overview of the Annual Financial Report (AFR)**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Simpson County Public School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management’s discussion and analysis, (B) the basic financial statements and related notes (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.



# *Organization of the Annual Financial Report*



The District-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **Reporting the School District as a Whole**

One of the most important questions asked about the School District is "How did we do financially during the current fiscal year?" The *Statement of Net Assets* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting, used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the School District's property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statements of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food service and daycare services are reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$10,299,697 as of June 30, 2005. This was an increase of \$714,510 over the previous year.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The amount of capital assets, net related of debt was \$7,802,659 (an increase of \$1,452,143 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

## Reporting the School District's Most Significant Funds

### Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds and the district's flex spending account are reported as fiduciary funds. The proprietary fund consists of the school food fund and the daycare fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Simpson County School District are the general fund, special revenue (grants), and construction fund.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Assets and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

**Proprietary Funds** - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The proprietary fund is our food service operations and daycare program.

**Fiduciary Funds** – The schools' activity funds and the flex spending account (or agency funds) are the District's fiduciary fund. The fiduciary fund liabilities at year-end totaled \$263,093 (an increase of \$2,106 from the previous year).

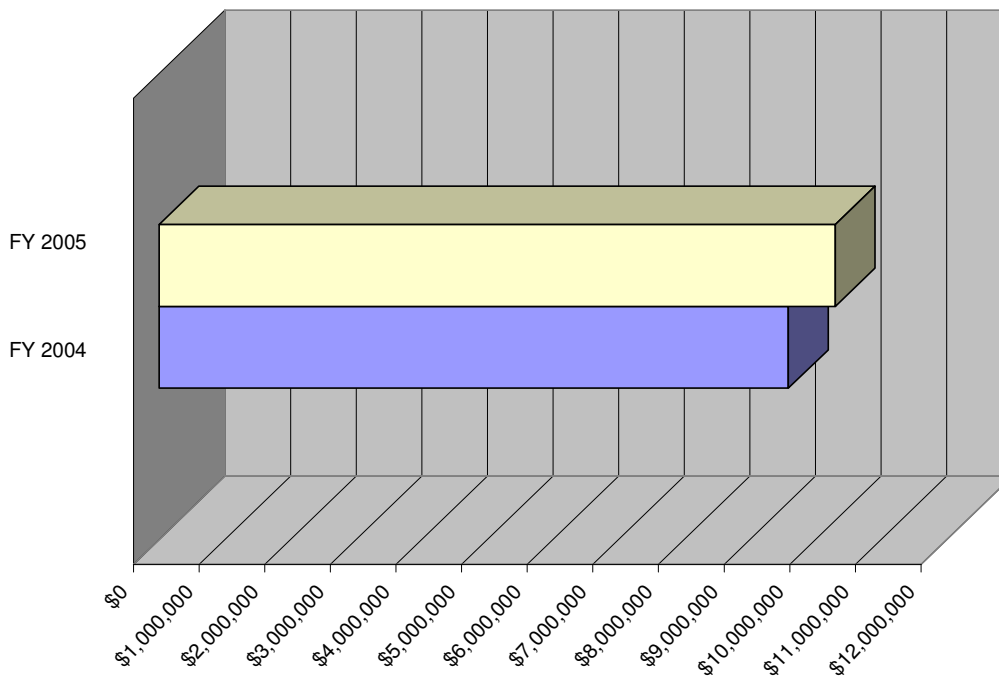
## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Assets for the period ending June 30, 2005

	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	2004-2005
Current and Other Assets	\$4,023,437	\$ 10,786,832	\$333,304	\$ 453,530	\$4,356,741	\$ 11,240,362	158.00%
Capital Assets	\$13,272,171	\$ 17,039,469	\$192,056	\$ 174,347	\$13,464,227	\$ 17,213,816	27.85%
<b>Total Assets</b>	<b>\$17,295,608</b>	<b>\$ 27,826,301</b>	<b>\$525,360</b>	<b>\$ 627,877</b>	<b>\$17,820,968</b>	<b>\$ 28,454,178</b>	<b>59.67%</b>
Long Term Liabilities	\$6,829,310	\$ 15,931,992	\$0	\$ -	\$6,829,310	\$ 15,931,992	133.29%
Other Liabilities	\$1,402,551	\$ 2,221,520	\$3,920	\$ 969	\$1,406,471	\$ 2,222,489	58.02%
<b>Total Liabilities</b>	<b>\$8,231,861</b>	<b>\$ 18,153,512</b>	<b>\$3,920</b>	<b>\$ 969</b>	<b>\$8,235,781</b>	<b>\$ 18,154,481</b>	<b>120.43%</b>
Investment in Capital Assets (net of debt)	\$6,158,460	\$ 7,628,312	\$192,056	\$ 174,347	\$6,350,516	\$ 7,802,659	22.87%
Restricted (SFCC)	\$598,634	\$ 25,389	\$0	\$ -	\$598,634	\$ 25,389	-95.76%
Unrestricted Fund	\$2,306,653	\$ 2,019,088	\$329,384	\$ 452,561	\$2,636,037	\$ 2,471,649	-6.24%
<b>Total Net Assets</b>	<b>\$9,063,747</b>	<b>\$ 9,672,789</b>	<b>\$521,440</b>	<b>\$ 626,908</b>	<b>\$9,585,187</b>	<b>\$ 10,299,697</b>	<b>7.45%</b>

**At year-end assets exceeded liabilities by \$10,299,697.**

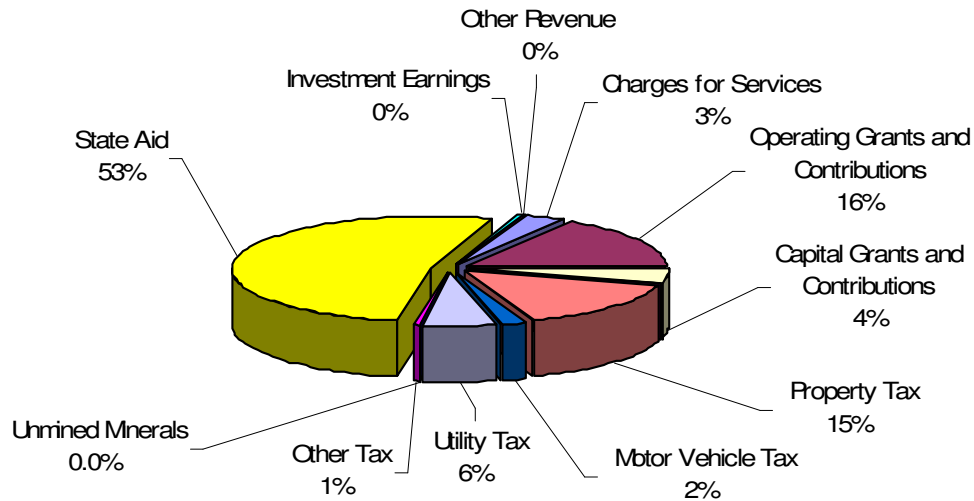
**SC Net Assets (increased by 7.45% or \$714,510)**



## Changes in Net Assets for June 30, 2004 and June 30, 2005

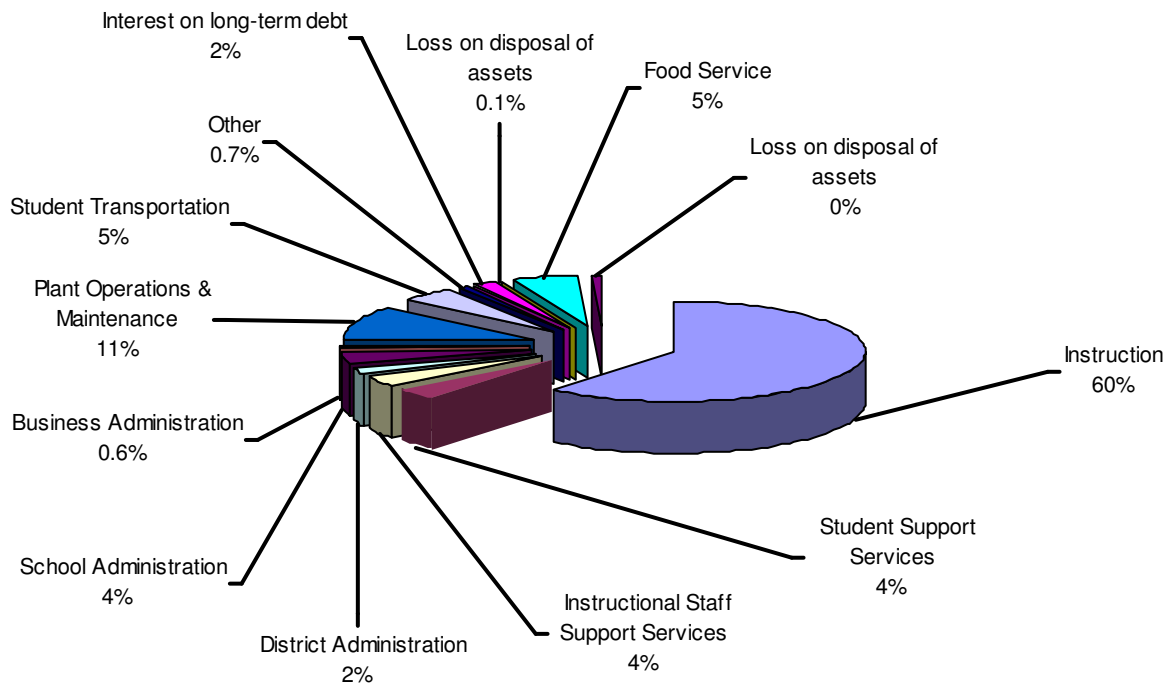
	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	2004-05
<b>Revenues</b>							
<b>Program Revenues</b>							
Charges for Services	\$13,400	\$14,000	\$735,017	\$741,298	\$748,417	\$755,298	0.92%
Operating Grants and Contributions	\$2,649,401	\$2,840,948	\$598,471	\$717,152	\$3,247,872	\$3,558,100	9.55%
Capital Grants and Contributions	\$827,193	\$955,983			\$827,193	\$955,983	15.57%
<b>General Revenue</b>							
Property Tax	\$3,249,155	\$3,453,436			\$3,249,155	\$3,453,436	6.29%
Motor Vehicle Tax	\$490,496	\$439,383			\$490,496	\$439,383	-10.42%
Utility Tax	\$1,212,587	\$1,251,327			\$1,212,587	\$1,251,327	3.19%
Unmined Minerals	\$0	\$382			\$0	\$382	
Other Tax	\$123,959	\$115,967			\$123,959	\$115,967	-6.45%
State Aid	\$10,750,307	\$11,714,093			\$10,750,307	\$11,714,093	8.97%
Investment Earnings	\$32,099	\$99,374	\$1,187	\$4,032	\$33,286	\$103,406	210.66%
Other Revenue	\$17,573	\$16,778			\$17,573	\$16,778	-4.52%
Total Revenues	\$19,366,170	\$20,901,671	\$1,334,675	\$1,462,482	\$20,700,845	\$22,364,153	8.03%

## Sources of Revenue



EXPENSES	Governmental Activities		Proprietary Business-Type Activities		District Total		District Total % Change
	FY2004	FY 2005	FY2004	FY 2005	FY2004	FY 2005	2004-2005
Instruction	\$ 12,321,472	\$ 13,142,549			\$ 12,321,472	\$ 13,142,549	6.7%
Student Support Services	\$ 742,801	\$ 823,167			\$ 742,801	\$ 823,167	10.8%
Instructional Staff Support Services	\$ 723,244	\$ 792,049			\$ 723,244	\$ 792,049	9.5%
District Administration	\$ 416,460	\$ 418,503			\$ 416,460	\$ 418,503	0.5%
School Administration	\$ 930,571	\$ 948,621			\$ 930,571	\$ 948,621	1.9%
Business Administration	\$ 126,497	\$ 137,440			\$ 126,497	\$ 137,440	8.7%
Plant Operations & Maintenance	\$ 2,162,016	\$ 2,386,405			\$ 2,162,016	\$ 2,386,405	10.4%
Student Transportation	\$ 981,767	\$ 1,025,693			\$ 981,767	\$ 1,025,693	4.5%
Other	\$ 157,344	\$ 151,820			\$ 157,344	\$ 151,820	-3.5%
Interest on long-term debt	\$ 294,188	\$ 449,376			\$ 294,188	\$ 449,376	52.8%
Loss on disposal of assets	\$ 7,203	\$ 17,006			\$ 7,203	\$ 17,006	136.1%
Food Service	\$ 43,300	\$ -	\$ 1,059,912	\$ 1,152,759	\$ 1,103,212	\$ 1,152,759	4.5%
DayCare			\$ 167,457	\$ 204,255	\$ 167,457	\$ 204,255	22.0%
Total Expenses	\$ 18,906,863	\$ 20,292,629	\$ 1,227,369	\$ 1,357,014	\$ 20,134,232	\$ 21,649,643	7.5%

## Expenses

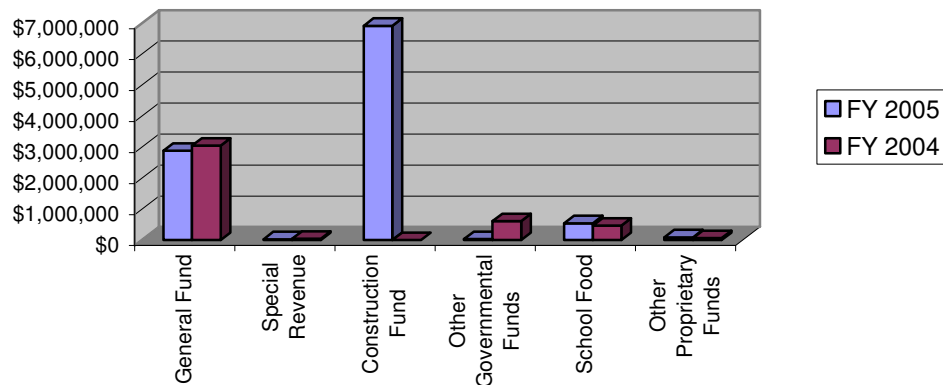


- The District's total revenues were \$22,364,153 and the total expenditures were \$21,649,643. Revenues exceeded expenditures by \$714,510.
- State revenues accounted for 53% and local taxes accounted for 24% of the revenue.
- Instruction was the major expense category and accounted for 60% to the total.
- Food Service revenues exceeded expenses by \$76,946, Day Care revenues exceeded expenses by \$28,522.

### Financial Analysis of the District Funds

End-of-Year Fund Balances	FY 2004	FY 2005	Amount of Change	% Change
General Fund	\$3,047,785	\$2,878,374	(\$169,411)	-6%
Special Revenue	\$41,723	\$23,827	(\$17,896)	-43%
Construction Fund	\$0	\$6,914,669	\$6,914,669	100%
Other Governmental Funds	\$608,812	\$25,389	(\$583,423)	-96%
School Food	\$463,711	\$540,657	\$76,946	17%
Other Proprietary Funds	\$57,729	\$86,251	\$28,522	49%

### Year-End Balances



- The General Fund's fund balance showed a negative change of \$169,411. This was primarily the result of state SEEK funding not matching employee salary raises, a creation of additional positions for CIA and an increased emphasis on facility improvements.
- The Special Revenue fund had a negative change of \$17,896. The principal reason for the difference is that prior year technology funds were expended during the current year. All projects in the Special Revenue fund are zeroed at end-of-year except the KETS Technology project.

- The Construction fund showed a increase in the fund balance of \$6,914,669. The Construction funds are restricted funds to be used for construction and renovations projects outlined by the District Facility Plan. Bonds were sold during the school year for the renovations of the Franklin Simpson Middle School and Simpson Elementary School. Bonds were also sold for the Performance Energy Project.
- Other Governmental funds showed a decline of \$583,423. This was due to the costs of the construction phase of the Middle School addition/renovation, the Simpson Elementary renovation projects, renovations of two (2) science rooms at the High School, an obligation of funds for future roof replacement at the High School and a matching debt service payment for a Qualified Zone Academy Bond (QZAB).
- Other Proprietary Funds which includes the district Daycare operation had an increase in funds of \$28,522 due to monies being escrowed during the year for future emergencies and anticipated needs.

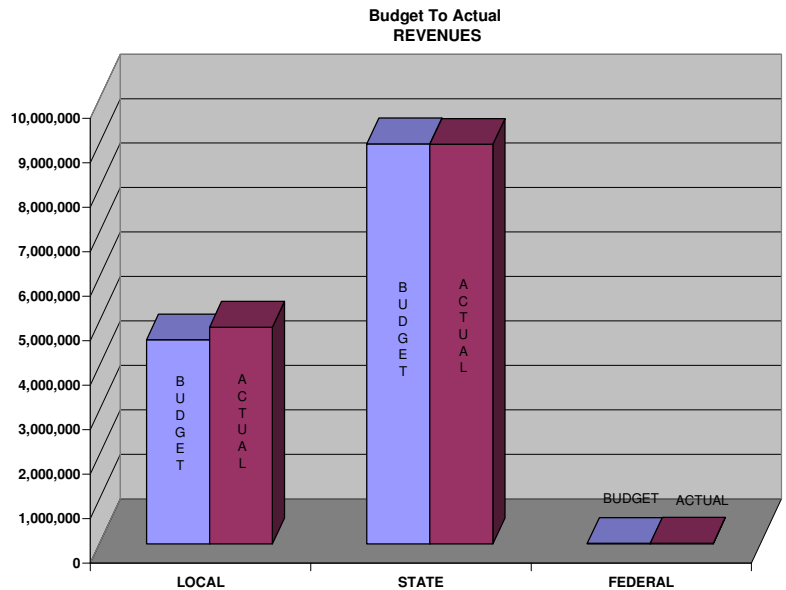
### **Comments on General Fund Budget Comparisons**

- The District's General Fund total revenues for the fiscal year ended June 20, 2005, net of interfund transfers, were \$13,872,059. This is \$278,002 more than was budgeted in the final working budget. The District budgeted conservatively in its local and state revenues and received \$286,309 more in local funds and \$8,307 less in State and Federal than was budgeted. It is advisable to do this because there have been numerous state funding adjustments and unfunded mandates during the last four years that have decreased the amount of state revenue the district has received. A carry-forward balance of 8-10% is recommended.
- Expenditures were less that budgeted by \$2,261,589. The main reason is that contingencies of \$2,411,875 were budgeted and these were not intended to be spent. Also, expenditure codes in transportation were overspent due to the increase cost of upgrades/equipment to the new bus garage.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$169,411 less than the prior year. The primary reason for this was a result of state SEEK funding not matching employee salary raises, a creation of additional positions for CIA at each school and an increased emphasis on facility improvement projects.
- The Final Budget and the Original Budget differ primarily because the Original Budget is prepared by the end of January for the next school year and the state had not adopted their budget. The District was mandated to adopt a 2.5% pay raise. The first 1% is unfunded by the SEEK formula.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not expended at the end of the previous year.

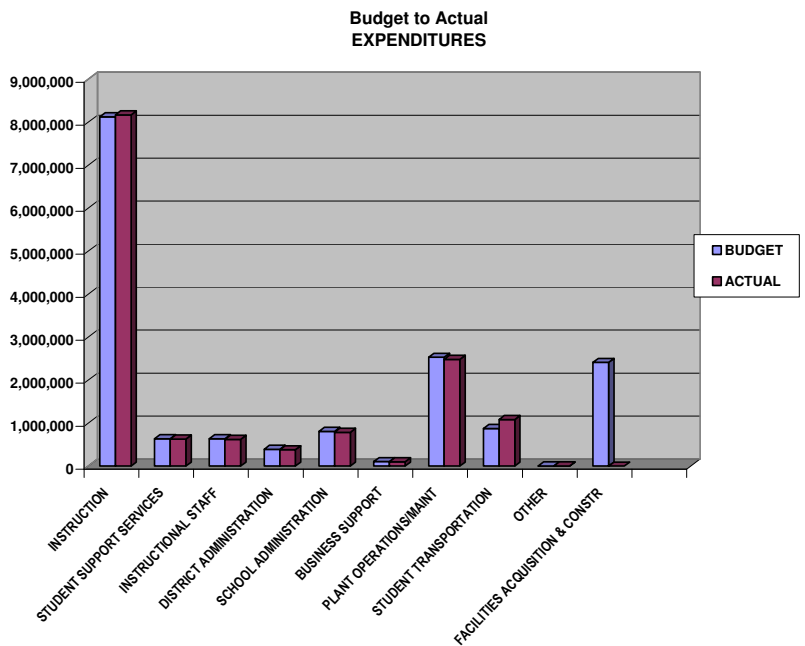


## General Fund and Special Revenue Budget Comparisons (cont.)

REVENUES	BUDGET	ACTUAL
LOCAL	\$ 4,587,260	\$ 4,873,569
STATE	\$ 8,996,797	\$ 8,984,835
FEDERAL	\$ 10,000	\$ 13,655
TOTAL	\$ 13,594,057	\$ 13,872,059
	DIFFERENCE	\$ 278,002



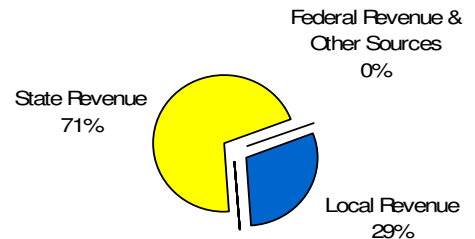
EXPENDITURES	BUDGET	ACTUAL
INSTRUCTION	\$ 8,126,665	\$ 8,172,054
STUDENT SUPPORT SERVICES	\$ 636,740	\$ 631,234
INSTRUCTIONAL STAFF	\$ 636,389	\$ 624,481
DISTRICT ADMINISTRATION	\$ 392,920	\$ 381,052
SCHOOL ADMINISTRATION	\$ 808,459	\$ 789,494
BUSINESS SUPPORT	\$ 106,392	\$ 105,116
PLANT OPERATIONS/MAINT	\$ 2,534,459	\$ 2,484,682
STUDENT TRANSPORTATION	\$ 879,144	\$ 1,083,342
OTHER	\$ 5,987	\$ 5,986
FACILITIES ACQUISITION & CONSTR (INCLUDES CONTINGENCY)	\$ 2,411,875	\$ -
	\$ 16,539,030	\$ 14,277,441
	DIFFERENCE	\$ (2,261,589)



The following tables present a summary of revenue and expense of the General Fund for the fiscal year ended June 30, 2005.

		Amount
<b>Revenues:</b>		
Local Revenue		\$ 4,873,569
	<i>Taxes</i>	
	<i>Property</i>	\$ 2,975,402
	<i>Motor Vehicle</i>	\$ 439,383
	<i>Utilities</i>	\$ 1,251,327
	<i>Unmined Minerals</i>	\$ 382
	<i>Other</i>	\$ 115,967
	<i>Tuition and Fees</i>	\$ 5,000
	<i>Earnings on Investments</i>	\$ 73,985
	<i>Other Local Revenue</i>	\$ 12,123
State Revenue		\$ 11,714,093
Federal Revenue & Other Sources		\$ 13,655
<b>Total revenues</b>		<b>\$16,601,317</b>

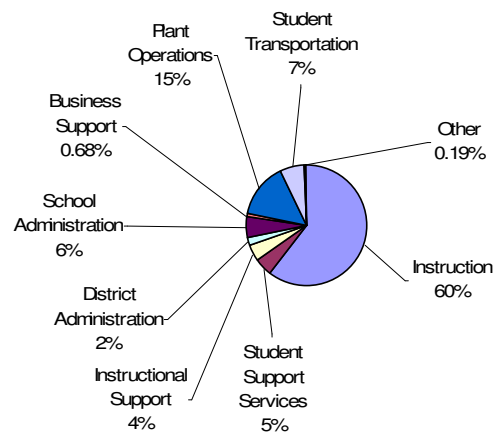
#### GENERAL FUND REVENUES



The majority of revenue was derived from state funding (71%) with local revenue sources making up 29% of total revenue.

<b>Expenditures:</b>	
Instruction	\$ 10,254,958
Student Support Services	\$ 782,294
Instructional Support	\$ 758,163
District Administration	\$ 411,441
School Administration	\$ 948,243
Business Support	\$ 115,053
Plant Operations	\$ 2,561,733
Student Transportation	\$ 1,142,919
Other	\$ 31,895
<b>Total expenditures</b>	<b>\$ 17,006,699</b>
<b>Expenditures in Excess of Revenue</b>	<b>\$ (405,382)</b>

#### EXPENDITURES



## CAPITAL ASSET AND DEBT ADMINISTRATION

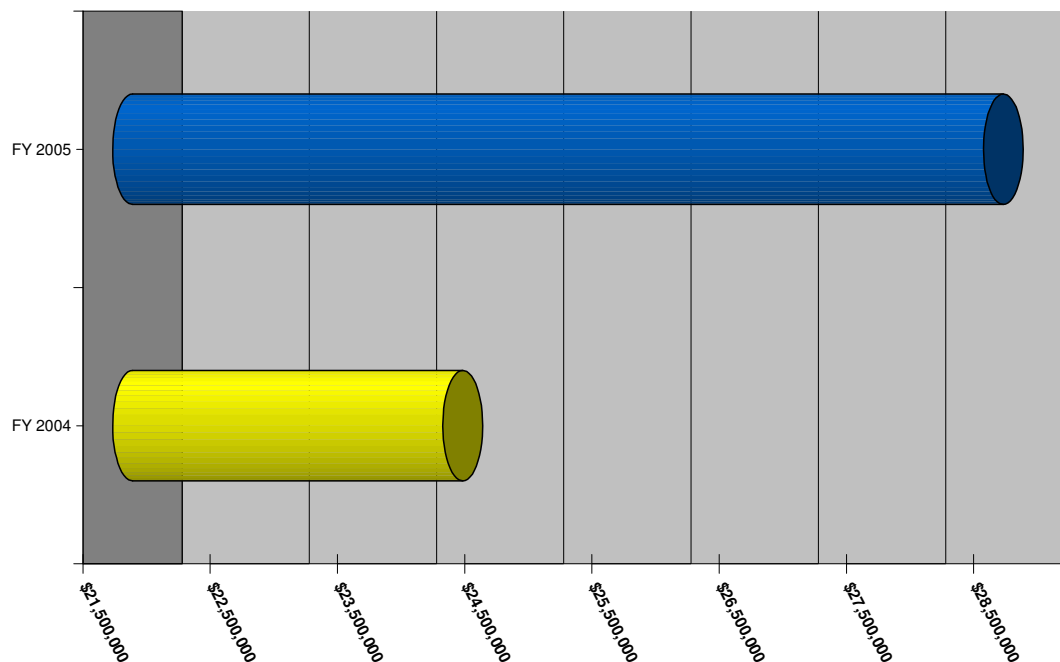
### Capital Assets

By June 30, 2005, the district had invested \$28,342,838 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The accumulated depreciation was a total of \$ 111,129,022. The district had \$3,987,449 in construction in progress on open projects through out the district.

### SUMMARY OF CAPITAL ASSETS

CAPITAL ASSETS	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005	2004-05
Land	\$ 2,020,087	\$ 2,053,915	\$ -	\$ -	\$ 2,020,087	\$ 2,053,915	1.7%
Buildings	\$ 16,654,504	\$ 20,600,928	\$ -	\$ -	\$ 16,654,504	\$ 20,600,928	23.7%
Equipment and Furniture	\$ 3,237,227	\$ 3,254,712	\$ 435,911	\$ 425,659	\$ 3,673,138	\$ 3,680,371	0.2%
Vehicles	\$ 1,747,197	\$ 2,007,624	\$ -	\$ -	\$ 1,747,197	\$ 2,007,624	14.9%
<b>Total Assets</b>	<b>\$ 23,659,015</b>	<b>\$ 27,917,179</b>	<b>\$ 435,911</b>	<b>\$ 425,659</b>	<b>\$ 24,094,926</b>	<b>\$ 28,342,838</b>	<b>17.6%</b>

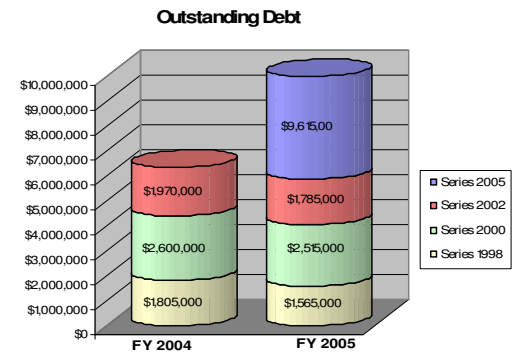
Capital Assets (Increase of 17.6%)



## Long-Term Debt

At year-end the district had \$15.4 million in general obligation bonds outstanding. This was an increase of 142.82% over last year. The increase was due to selling the 2005 bonds for the renovations of Simpson Elementary and F-S Middle Schools.

General Obligation Bonds:		Governmental Activities FY2004	Governmental Activities FY2005
Series 1998	Refunding of 1988 and 1991 Issues--Additions to Simpson, Lincoln and Middle School	\$ 1,805,000	\$1,565,000
Series 2000	Renovations for Simpson Elem, FS High School, and the Career Technical Center	\$ 2,600,000	\$2,515,000
Series 2002	Re-funding of 1993 Issue (Additions and Renovation to Lincoln Elementary)	\$ 1,970,000	\$ 1,785,000
Series 2005	Renovations for Simpson Elem, F-S Middle School		\$9,615,000
TOTAL		\$ 6,375,000	\$15,480,000



## BUDGETARY IMPLICATIONS

A fundamental principle of finance is a balanced budget. It is important not to spend more than is received. Unknown circumstances sometimes arise that require expenses in a year that exceed revenues. It is extremely important that the district continue to budget very conservatively. The district receives approximate 53 % of its new general fund revenue each year through the state funding formula (SEEK). There have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 24 % of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the sixth-eighth months of the school year. This means the general fund's beginning fund balance must be used to absorb much of the first five months of expenditures in the school year. Provisions must always be made to have a significant fund beginning balance to start each year. The General Fund has an ending fund balance of \$2,878,374 or 15.42 % of the total budget as a beginning balance for next year.

By law the budget must have a minimum 2% contingency but it is recommended that a higher contingency be maintained. The district adopted a budget with \$1,650,082 in contingency (8.02%). The beginning fund balance for beginning the fiscal year is \$2,878,374. Significant Board action that impacts the finances include a 3 % pay raise for all certified and classified employees and general fund matching dollars for state and federal grants. The district currently participates in twenty-six federal and state grants. All federal funds received by Simpson County are restricted for specific purposes. The total budget for these grants is \$3,068,275. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. At year-end, the

District's General Fund was due \$116,066 from other funds. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements. In addition, decisions about allocation of funds held in reserve for annual expense must always consider the implication of recurring expense. Personnel expenses are a classic example of recurring expense. Also, additional contingency is required due to the age of the district's buildings where unanticipated major repairs could arise to maintain up-to-date facilities and a good learning environment for all students. Simpson County Schools has made a continuous effort to increase pay raises above the state minimum requirement to compete more with surrounding districts in attracting the best and talented educators. The district's policy of maintaining a strong reserve resulted in no cutbacks or layoffs as a result of reduced state funding.

#### **DISTRICT CHALLENGES FOR THE FUTURE**

Our mission and the primary challenges for Simpson County Schools are to continue increasing student achievement toward our goal of proficiency for all schools by 2014 which will be accomplished by successfully meeting the learning needs of every single student we serve. We are implementing an important professional development initiative called *Thoughtful Education* to help us realize this mission. Additionally, it is critically important for us to attract and retain the best educators available for our students, to provide modern/well-maintained facilities where students may learn and staff may work, and improve the average daily attendance count for students.

Simpson County Schools made impressive gains on the 2005 CATS assessment given last spring, raising our index 6 points overall (third highest increase in the state of Kentucky!!!) from 76.2 to 82.2. Our Elementary Schools - Franklin Elementary, Simpson Elementary and Lincoln Elementary receive a joint accountability index. This year our elementary schools improved their accountability index to 88.3, an increase of 7 points. Additionally, our elementary schools exceeded their biennium goal! Franklin-Simpson Middle School improved its accountability index 7.3 points to 84.2 and met its novice reduction goal. Franklin-Simpson High School improved their biennium index from 69.8 up to 73.7. However, we can't rest on our laurels in a system of continuous improvement. We must plan very wisely and make informed decisions about the best way to allocate our resources in order to bring about improved student learning.

Our school system is in the second year of involvement in an important professional development initiative called *Thoughtful Education*. During Year One, principals and teacher leaders received training in Thoughtful Education, and started one or two "Learning Clubs" at each school. We are now engaging all instructional staff members in "Learning Clubs" to see and learn for themselves what Thoughtful Education is all about and what it can do for our students. Thoughtful Education is built upon five pillars of improving teaching, learning, and schools in general:

1. **The Hidden Skills of Academic Literacy** -- These skills are called "hidden" because they are largely *under-taught*, *under-described*, and *under-assessed*. Including such skills as vocabulary, note making, and comparing/contrasting, mastery of these skills is essential to high performance.
2. **Research-Based Strategies** -- Today's students require engaging strategies which research has shown to be effective.

3. **A Diversity That Works** -- We have known for years that different students learn in different ways. The challenge is to find a “diversity that works,” and by focusing on these skills and strategies with simple accommodations for different learning styles (mastery, understanding, self-expressive, and interpersonal), the results can be nothing short of phenomenal.
4. **Curriculum Design** -- *Thoughtful* curriculum design provides a manageable framework for stressing *the hidden skills of academic literacy* through *research-based strategies*, all in the atmosphere of *a diversity that works*. But, more important, it also offers a place where students can come to learn about themselves while they interact with others and engage with powerful ideas. In other words, they can be *thoughtful*.
5. **Instructional Learning Teams** -- Just as students need a place “to learn about themselves while they interact with others and engage with powerful ideas,” so do teachers need the benefits of collaboration in reaching student achievement goals. Instructional Learning Teams insist that no teacher is alone when it comes to raising achievement; rather, through *focus, collaboration, adaptability, and reflection*, teachers share a commitment to developing the capacity of the school and district.

We are very excited about this professional development initiative and believe it is making a positive difference for students in Simpson County Schools.

Our business is a people business. The adults we have working with our students are critical to our success. Therefore, it's essential to our mission to attract and retain the very best educators possible in order to enhance the instructional program for all students. This requires competitive salaries/benefits and up-to-date resources and facilities.

Our district facilities plan calls for about \$28 million in facility improvements. Our most pressing needs are renovations and/or additions of existing facilities at Franklin Elementary School, Simpson Elementary School and Franklin-Simpson Middle School. We have a project underway at our middle school where we are making an addition and renovation which includes ten (10) new additional classrooms, media center and a new cafeteria/kitchen. We are wrapping up an addition/renovation project at Simpson Elementary which includes the following: cafeteria/front entrance/administrative area expansion/renovation, HVAC and roofing improvements. We also completed renovations of two Science Labs at Franklin-Simpson High School. With the support of Senator Richie Sanders and Representative Rob Wilkey, the General Assembly appropriated a \$3.8 million allotment for a complete renovation of Franklin Elementary, including an upgrade to the front exterior facade, HVAC, interior finishes and roofing improvements. Finally, we are completing a performance contract which allows us to make improvements to our schools that will result in energy and operational savings. The savings are guaranteed and used to pay for the improvements. We will realize improvements district-wide in lighting and HVAC control systems. Additionally, this mechanism provided for a new geothermal HVAC system for Simpson Elementary and new air conditioning for the Franklin-Simpson Career & Technical Center. The facilities improvements currently being implemented in our district will total about \$15.5 million. Though these improvements will be a tremendous boost to our schools, it represents only a portion of our total needs. Adhering to the facilities plan is essential in providing quality buildings and excellent learning environments for our students.

Another district challenge mentioned is improving the average daily attendance count. The district receives funding through the SEEK formula based on this count. It is vital that our schools have high attendance percentages and that parents and students continue to choose Simpson County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, inquiries should be directed to Jim Flynn, Superintendent or Linda Travelstead, Director of Financial Services (270) 586-8877, 430 South College St., Franklin, KY, 42134.

# Basic Financial Statements



**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash.....	\$ 10,152,775	\$ 385,397	\$ 10,538,172
Accounts receivable:			
Taxes .....	163,190	0	163,190
Accounts .....	6,060	3,078	9,138
Intergovernmental .....	401,457	0	401,457
Inventory .....	0	65,055	65,055
Prepaid expenses .....	968	0	968
Bond issuance cost.....	63,700	0	63,700
Less: accumulated amortization .....	(1,318)	0	(1,318)
Non-depreciated capital assets.....	4,574,430	0	4,574,430
Depreciable capital assets .....	23,342,749	425,659	23,768,408
Less: accumulated depreciation .....	(10,877,710)	(251,312)	(11,129,022)
<b>TOTAL ASSETS</b>	<b>27,826,301</b>	<b>627,877</b>	<b>28,454,178</b>
<b>LIABILITIES</b>			
Accounts payable.....	766,124	969	767,093
Deferred revenue .....	116,067	0	116,067
Accrued interest.....	218,064	0	218,064
Long-term obligations:			
Due within one year:			
Outstanding bonds .....	665,000	0	665,000
Other .....	205,860	0	205,860
Compensated absences.....	250,405	0	250,405
Due beyond one year:			
Outstanding bonds .....	14,838,625	0	14,838,625
Other .....	616,341	0	616,341
Compensated absences.....	477,026	0	477,026
<b>TOTAL LIABILITIES</b>	<b>18,153,512</b>	<b>969</b>	<b>18,154,481</b>

**NET ASSETS**

Invested in capital assets, net of related debt .....	7,628,312	174,347	7,802,659
Restricted for:			
Debt service .....	25,389	0	25,389
Unrestricted.....	<u>2,019,088</u>	<u>452,561</u>	<u>2,471,649</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 9,672,789</u></b>	<b><u>\$ 626,908</u></b>	<b><u>\$ 10,299,697</u></b>

*See accompanying notes to the financial statements.*

**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2005

		PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS									
		EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL							
GOVERNMENTAL ACTIVITIES															
Instruction.....	\$	13,142,549	\$	5,000	\$	2,520,325	\$	18,649	\$	(10,598,575)	\$	0	\$	(10,598,575)	
Support services:															
Student .....		823,167		0		40,873		0		(782,294)		0		(782,294)	
Instructional staff.....		792,049		0		51,914		0		(740,135)		0		(740,135)	
District administration.....		418,503		0		0		0		(418,503)		0		(418,503)	
School administration.....		948,621		0		0		0		(948,621)		0		(948,621)	
Business .....		137,440		0		17,342		0		(120,098)		0		(120,098)	
Plant operations and maintenance .....		2,386,405		9,000		55,500		0		(2,321,905)		0		(2,321,905)	
Student transportation.....		1,025,693		0		35,069		0		(990,624)		0		(990,624)	
Other .....		151,820		0		119,925		0		(31,895)		0		(31,895)	
Facilities acquisition and construction.....		0		0		0		684,781		684,781		0		684,781	
Interest on long-term debt .....		449,376		0		0		252,553		(196,823)		0		(196,823)	
Loss on disposal of assets .....		17,006		0		0		0		(17,006)		0		(17,006)	
TOTAL GOVERNMENTAL ACTIVITIES		20,292,629		14,000		2,840,948		955,983		(16,481,698)		0		(16,481,698)	

**BUSINESS-TYPE ACTIVITIES**

Food services .....	1,152,759	508,521	717,152	0	0	72,914	72,914
Other .....	204,255	232,777	0	0	0	28,522	28,522
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>1,357,014</b>	<b>741,298</b>	<b>717,152</b>	<b>0</b>	<b>0</b>	<b>101,436</b>	<b>101,436</b>
<b>TOTAL SCHOOL DISTRICT</b>	<b>\$ 21,649,643</b>	<b>\$ 755,298</b>	<b>\$ 3,558,100</b>	<b>\$ 955,983</b>	<b>(16,481,698)</b>	<b>101,436</b>	<b>(16,380,262)</b>

**GENERAL REVENUES**

## Taxes:

Property .....	3,453,436	0	3,453,436
Motor vehicle .....	439,383	0	439,383
Utilities .....	1,251,327	0	1,251,327
Unmined minerals .....	382	0	382
Other .....	115,967	0	115,967
State aid .....	11,714,093	0	11,714,093
Investment earnings .....	99,374	4,032	103,406
Other .....	16,778	0	16,778

<b>TOTAL GENERAL REVENUES</b>	<b>17,090,740</b>	<b>4,032</b>	<b>17,094,772</b>
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<b>CHANGE IN NET ASSETS .....</b>	<b>609,042</b>	<b>105,468</b>	<b>714,510</b>
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<b>NET ASSETS – BEGINNING OF YEAR .....</b>	<b>9,063,747</b>	<b>521,440</b>	<b>9,585,187</b>
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<b>NET ASSETS – END OF YEAR</b>	<b>\$ 9,672,789</b>	<b>\$ 626,908</b>	<b>\$ 10,299,697</b>
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**SIMPSON COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005**

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash .....	\$ 2,609,470	\$ 0	\$ 7,517,916	\$ 25,389	\$ 10,152,775
Accounts receivable:					
Taxes .....	163,190	0	0	0	163,190
Accounts .....	6,060	0	0	0	6,060
Intergovernmental .....	112	401,345	0	0	401,457
Due from other funds .....	249,259	0	0	0	249,259
Prepays .....	968	0	0	0	968
<b>TOTAL ASSETS</b>	<b>\$ 3,029,059</b>	<b>\$ 401,345</b>	<b>\$ 7,517,916</b>	<b>\$ 25,389</b>	<b>\$ 10,973,709</b>

**LIABILITIES  
AND FUND BALANCES**

**LIABILITIES**

Accounts payable .....	\$ 150,685	\$ 12,192	\$ 603,247	\$ 0	\$ 766,124
Due to other funds .....	0	249,259	0	0	249,259
Deferred revenue.....	0	116,067	0	0	116,067
<b>TOTAL LIABILITIES</b>	<b>150,685</b>	<b>377,518</b>	<b>603,247</b>	<b>0</b>	<b>1,131,450</b>

**FUND BALANCES**

Reserved for:					
Encumbrances .....	0	4,571	0	0	4,571
Future construction.....	600,000	0	6,914,669	0	7,514,669
Compensated absences.....	65,580	0	0	0	65,580
Debt service .....	0	0	0	25,389	25,389
Unreserved .....	2,212,794	19,256	0	0	2,232,050
<b>TOTAL FUND BALANCES</b>	<b>2,878,374</b>	<b>23,827</b>	<b>6,914,669</b>	<b>25,389</b>	<b>9,842,259</b>

**TOTAL LIABILITIES AND  
FUND BALANCES**

<b>\$ 3,029,059</b>	<b>\$ 401,345</b>	<b>\$ 7,517,916</b>	<b>\$ 25,389</b>	<b>\$ 10,973,709</b>
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**SIMPSON COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2005**

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**TOTAL FUND BALANCES – GOVERNMENTAL FUNDS** ..... \$ 9,842,259

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and, therefore, are not reported as assets in governmental funds. The cost of  
the assets is \$27,917,179, and the accumulated depreciation is \$10,877,710. .... 17,039,469

Bond issuance costs are not financial resources and, therefore, are not  
reported as assets in governmental funds. The cost of the asset is \$63,700,  
and the accumulated amortization is \$1,318. .... 62,382

Long-term liabilities, including bonds payable, are not due and payable in the  
current period and, therefore, are not reported as liabilities in the funds. Long-  
term liabilities at year-end consist of:

Bonds payable .....	(15,503,625)
Accrued interest on outstanding bonds .....	(218,064)
Other debt .....	(822,201)
Compensated absences .....	(727,431)

**TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES**      **\$ 9,672,789**

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*See accompanying notes to the financial statements.*

**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2005**

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>					
From local sources:					
Taxes:					
Property .....	\$ 2,975,402	\$ 0	\$ 0	\$ 478,034	\$ 3,453,436
Motor vehicle.....	439,383	0	0	0	439,383
Utilities .....	1,251,327	0	0	0	1,251,327
Unmined minerals .....	382	0	0	0	382
Other .....	115,967	0	0	0	115,967
Tuition and fees .....	5,000	0	0	0	5,000
Earnings on investments .....	73,985	303	73,567	25,389	173,244
Other local revenue .....	12,123	73,369	0	0	85,492
Intergovernmental – state .....	11,714,093	1,209,683	0	863,767	13,787,543
Intergovernmental – federal .....	13,655	1,576,242	0	0	1,589,897
<b>TOTAL REVENUES</b>	<b>16,601,317</b>	<b>2,859,597</b>	<b>73,567</b>	<b>1,367,190</b>	<b>20,901,671</b>
<b>EXPENDITURES</b>					
Current:					
Instruction .....	10,254,958	2,594,102	0	0	12,849,060
Support services:					
Student.....	782,294	40,873	0	0	823,167
Instructional staff.....	758,163	51,914	0	0	810,077
District administration.....	411,441	0	0	0	411,441



School administration.....	948,243	0	0	0	948,243
Business .....	115,053	17,342	0	0	132,395
Plant operations and maintenance.....	2,561,733	55,500	0	0	2,617,233
Student transportation.....	1,142,919	35,069	0	0	1,177,988
Other .....	31,895	119,925	0	0	151,820
Debt service:					
Principal.....	0	0	0	510,000	510,000
Interest .....	0	0	0	283,545	283,545
Bond issuance costs.....	0	0	63,700	0	63,700
Facilities acquisition and construction.....	0	0	3,684,508	208,658	3,893,166
<b>TOTAL EXPENDITURES</b>	<b>17,006,699</b>	<b>2,914,725</b>	<b>3,748,208</b>	<b>1,002,203</b>	<b>24,671,835</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(405,382)</b>	<b>(55,128)</b>	<b>(3,674,641)</b>	<b>364,987</b>	<b>(3,770,164)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Debt proceeds .....	273,203	0	0	0	273,203
Bond proceeds.....	0	0	9,922,700	0	9,922,700
Payment to escrow agent .....	0	0	0	(281,800)	(281,800)
Operating transfers .....	(37,232)	37,232	666,610	(666,610)	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>235,971</b>	<b>37,232</b>	<b>10,589,310</b>	<b>(948,410)</b>	<b>9,914,103</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(169,411)</b>	<b>(17,896)</b>	<b>6,914,669</b>	<b>(583,423)</b>	<b>6,143,939</b>
<b>FUND BALANCES – BEGINNING OF YEAR.....</b>	<b>3,047,785</b>	<b>41,723</b>	<b>0</b>	<b>608,812</b>	<b>3,698,320</b>
<b>FUND BALANCES – END OF YEAR</b>	<b>\$ 2,878,374</b>	<b>\$ 23,827</b>	<b>\$ 6,914,669</b>	<b>\$ 25,389</b>	<b>\$ 9,842,259</b>

See accompanying notes to the financial statements.

**SIMPSON COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005**

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**TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS .....**      \$    6,143,939

Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays are reported in governmental funds as expenditures.  
However, in the statement of activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. This is the amount  
by which capital outlays (\$4,657,076) exceeds depreciation expense  
(\$872,772) in the period.....      3,784,304

Gains and losses are not presented in governmental funds because they  
do not provide or use current financial resources. However, they are  
presented in the statement of activities. The difference between proceeds  
from the sale of assets and the actual gain/loss from the sale net to this  
amount for the year.....      (17,006)

Repayment of bond principal and other debt is an expenditure in the  
governmental funds, but the repayment reduces long-term liabilities in the  
statement of net assets.....      699,713

The proceeds for the issuance of bonds and other debt provide current  
financial resources and are reported in the fund financial statements but they  
are presented as liabilities in the statement of net assets. ....      (9,914,103)

Expenditures reported in the fund financial statements are recognized when  
the current financial resource is used. However, expenses in the statement  
of activities are recognized when they are incurred relating to interest cost,  
debt issuance cost and compensated absences.....      (87,805)

**CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES      \$    609,042**

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*See accompanying notes to the financial statements.*

**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2005**

	<b>ENTERPRISE FUND FOOD SERVICE</b>	<b>OTHER ENTERPRISE FUNDS</b>	<b>TOTAL</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash .....	\$ 305,753	\$ 79,644	\$ 385,397
Accounts receivable:			
Accounts.....	0	3,078	3,078
Inventory .....	65,055	0	65,055
<b>TOTAL CURRENT ASSETS</b>	<b>370,808</b>	<b>82,722</b>	<b>453,530</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets – net.....	170,229	4,118	174,347
<b>TOTAL ASSETS</b>	<b>\$ 541,037</b>	<b>\$ 86,840</b>	<b>\$ 627,877</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable .....	\$ 380	\$ 589	\$ 969
<b>TOTAL CURRENT LIABILITIES</b>	<b>380</b>	<b>589</b>	<b>969</b>
<b>NET ASSETS</b>			
Invested in capital assets.....	170,229	4,118	174,347
Unrestricted .....	370,428	82,133	452,561
<b>TOTAL NET ASSETS</b>	<b>540,657</b>	<b>86,251</b>	<b>626,908</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 541,037</b>	<b>\$ 86,840</b>	<b>\$ 627,877</b>

See accompanying notes to the financial statements.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2005**

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
<b>OPERATING REVENUES</b>			
Lunchroom sales .....	\$ 508,521	\$ 0	\$ 508,521
Tuition and fees .....	0	232,777	232,777
<b>TOTAL OPERATING REVENUES</b>	508,521	232,777	741,298
<b>OPERATING EXPENSES</b>			
Salaries and wages .....	540,831	155,323	696,154
Contract services .....	24,935	0	24,935
Materials and supplies .....	546,596	44,609	591,205
Other operating expenses.....	1,070	2,754	3,824
Depreciation expense .....	25,310	1,569	26,879
<b>TOTAL OPERATING EXPENSES</b>	1,138,742	204,255	1,342,997
<b>OPERATING INCOME (LOSS)</b>	(630,221)	28,522	(601,699)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
State operating grants .....	67,493	0	67,493
Federal operating grants.....	579,175	0	579,175
Donated commodities .....	70,484	0	70,484
Interest revenue.....	4,032	0	4,032
Loss on disposal of assets.....	(14,017)	0	(14,017)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	707,167	0	707,167
<b>CHANGE IN NET ASSETS</b> .....	76,946	28,522	105,468
<b>TOTAL NET ASSETS – BEGINNING OF YEAR</b> .....	463,711	57,729	521,440
<b>TOTAL NET ASSETS – END OF YEAR</b>	<b>\$ 540,657</b>	<b>\$ 86,251</b>	<b>\$ 626,908</b>

See accompanying notes to the financial statements.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2005**

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from user charges .....	\$ 508,956	\$ 234,484	\$ 743,440
Cash payments to employees for services .....	(489,577)	(155,323)	(644,900)
Cash payments for contract services .....	(24,935)	0	(24,935)
Cash payments to suppliers for goods and services.....	(506,969)	(47,906)	(554,875)
Cash payments for other operating expenses .....	(1,070)	(2,754)	(3,824)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(513,595)</b>	<b>28,501</b>	<b>(485,094)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Nonoperating grants received.....	595,414	0	595,414
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>595,414</b>	<b>0</b>	<b>595,414</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets.....	(23,187)	0	(23,187)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(23,187)</b>	<b>0</b>	<b>(23,187)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments.....	4,032	0	4,032
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>4,032</b>	<b>0</b>	<b>4,032</b>
<b>NET INCREASE IN CASH .....</b>	<b>62,664</b>	<b>28,501</b>	<b>91,165</b>
<b>CASH – BEGINNING OF YEAR .....</b>	<b>243,089</b>	<b>51,143</b>	<b>294,232</b>
<b>CASH – END OF YEAR</b>	<b>\$ 305,753</b>	<b>\$ 79,644</b>	<b>\$ 385,397</b>

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Operating income (loss).....	\$ (630,221)	\$ 28,522	\$ (601,699)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation .....	25,310	1,569	26,879
Commodities used.....	70,484	0	70,484
On-behalf payments received.....	51,254	0	51,254
Changes in assets and liabilities:			
Receivables .....	435	1,707	2,142
Inventories .....	(31,202)	0	(31,202)
Accounts payable.....	345	(3,297)	(2,952)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ (513,595)</b>	<b>\$ 28,501</b>	<b>\$ (485,094)</b>

#### NONCASH ACTIVITIES

- ▶ The food service fund received \$70,484 of donated commodities from the federal government.
- ▶ The District received on-behalf payments of \$51,254 relating to insurance benefits.

See accompanying notes to the financial statements.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**June 30, 2005**

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	<u>AGENCY FUNDS</u>
<b>ASSETS</b>	
<b>ASSETS</b>	
Cash.....	\$ 255,962
Accounts receivable.....	<u>7,131</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 263,093</u></b>
<b>LIABILITIES</b>	
<b>LIABILITIES</b>	
Accounts payable .....	\$ 27,169
Flexible spending account .....	108,374
Due to student groups .....	<u>127,550</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 263,093</u></b>

*See accompanying notes to the financial statements.*

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
June 30, 2005

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES**

● **Reporting Entity**

The Simpson County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Simpson County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Simpson County School District. In accordance with GASB 39, the financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc., except for the funds administered as an activity in the Agency funds.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

**Simpson County School District Finance Corporation** — The Simpson County Board of Education resolved to authorize the establishment of the Simpson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Simpson County Board of Education also comprise the Corporation's Board of Directors.



**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

● **Basis of Presentation**

**Government-wide Financial Statements** — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

► **Governmental Fund Types**

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The *Special Revenue Funds* account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

*Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment and to provide financial resources for debt service requirements (other than those financed by Proprietary Funds).

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The *Facility Support Program of Kentucky Fund (FSPK)* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, as required by Kentucky law.

► **Proprietary Fund Types**

*Enterprise Funds*

The *School Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

The *Enrichment Fund* is used to account for intersession activities.

The *Community Education Fund* is used to account for local community education activities.

The *Day Care Fund* is used to account for day care services offered to the general public.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others.

*Agency Funds*

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. The student funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

● **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

● **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

● **Inventory**

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● **Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure.

Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 1:            SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

● **Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

● **Compensated Absences**

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "*matured compensated absences payable*" in the funds from which the employees will be paid.

● **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

● **Fund Equity**

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change.



**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

● **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

● **Property Taxes**

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

● **Revenues — Exchange and Nonexchange Transactions**

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

● **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

● **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 1:           SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)**

● **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

● **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

● **Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

**NOTE 2:           CASH**

● **Deposits**

At June 30, 2005, the carrying amounts of the District's deposits were \$10,794,134 and the bank balances were \$12,679,915, which was covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

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**NOTE 2: CASH (Continued)**

The carrying amounts are reflected in the financial statements as follows:

Governmental funds .....	\$ 10,152,775
Proprietary funds .....	385,397
Fiduciary funds .....	<u>255,962</u>
	<b><u>\$ 10,794,134</u></b>

► *Custodial Credit Risk-Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$12,679,915 was not exposed to custodial credit risk as of June 30, 2005.

**NOTE 3: INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at June 30, 2005 consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	<b><u>\$ 249,259</u></b>

The interfund loan was made in order to fund the special revenue's cash requirements.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
<b>Governmental Activities:</b>				
Capital assets that are not depreciated:				
Land.....	\$ 586,981	\$ 0	\$ 0	\$ 586,981
Construction in progress .....	212,307	4,106,113	330,971	3,987,449
Total Nondepreciable Historical Cost	799,288	4,106,113	330,971	4,574,430
Capital assets that are depreciated:				
Land improvements.....	1,433,106	33,828	0	1,466,934
Buildings and improvements .....	16,442,197	171,282	0	16,613,479
Technology equipment.....	1,935,018	202,873	362,095	1,775,796
Vehicles .....	1,747,197	260,427	0	2,007,624
General .....	1,302,209	213,524	36,817	1,478,916
Total Depreciable Historical Cost	22,859,727	881,934	398,912	23,342,749
Less accumulated depreciation for:				
Land improvements.....	665,568	64,053	0	729,621
Buildings and improvements .....	6,312,152	359,523	0	6,671,675
Technology equipment.....	1,392,366	241,433	347,782	1,286,017
Vehicles .....	1,228,844	117,142	0	1,345,986
General .....	787,914	90,621	34,124	844,411
Total Accumulated Depreciation	10,386,844	872,772	381,906	10,877,710
Total Depreciable Historical Cost, Net	12,472,883	9,162	17,006	12,465,039
<b>Governmental Activities, Capital Assets, Net</b>	<b>\$ 13,272,171</b>	<b>\$ 4,115,275</b>	<b>\$ 347,977</b>	<b>\$ 17,039,469</b>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

**NOTE 4: CAPITAL ASSETS (Continued)**

	Capital Cost			
	Beginning Balance	Additions	Retirements/Reclassifications	Ending Balance
<b>Business-Type Activities:</b>				
Capital assets that are depreciated:				
Technology equipment .....	\$ 37,482	\$ 3,220	\$ 14,443	\$ 26,259
General .....	398,429	19,967	18,996	399,400
Total Depreciable Historical Cost	435,911	23,187	33,439	425,659
Less accumulated depreciation for:				
Technology equipment	30,389	2,667	14,145	18,911
General .....	213,466	24,212	5,277	232,401
Total Accumulated Depreciation	243,855	26,879	19,422	251,312
Total Depreciable Historical Cost, Net	192,056	(3,692)	14,017	174,347
<b>Business-Type Activities, Capital Assets, Net</b>	<b>\$ 192,056</b>	<b>\$ (3,692)</b>	<b>\$ 14,017</b>	<b>\$ 174,347</b>

Depreciation expense was charged to governmental functions as follows:

Instruction.....	\$ 702,939
Support services:	
Instructional staff .....	6,214
District administration.....	19,285
School administration.....	14,751
Business.....	5,045
Facilities operations .....	17,349
Student transportation.....	107,189
<b>Total Depreciation Expense</b>	<b>\$ 872,772</b>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 5: GENERAL LONG-TERM OBLIGATIONS**

The original amount of each issue, the issue date and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1998	2,655,000	4.20%—4.60%
2000	2,800,000	4.75%—5.50%
2002	2,180,000	1.75%—3.90%
2005	9,615,000	2.50% - 4.25%

On December 30, 2004, the District issued \$500,000 of Qualified Zone Academy Bonds (QZAB). The bonds were approved for the middle school renovation project. As stated in the agreement, \$281,800 of the proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the \$500,000 bond issue. As a result, the \$500,000 QZAB are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. The refunding of the bonds resulted in a gain of \$218,200 and is shown in the financial statements as an addition to bonds payable. The gain will be amortized to operations over the bonds' life of 16 years using the effective interest method.

On January 26, 2005, the District issued \$9,615,000 of General Obligation Bonds with interest rates of 2.50%—4.25% to finance the completion of improvements at Simpson Elementary and Franklin-Simpson Middle School.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Simpson County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

**NOTE 5: GENERAL LONG-TERM OBLIGATIONS**  
**(Continued)**

Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Simpson County School District		School Facility Construction Commission		Total Debt Service
	Principal	Interest	Principal	Interest	
2005—2006	\$ 496,462	\$ 574,925	\$ 168,538	\$ 83,765	\$ 1,323,690
2006—2007	549,247	527,936	175,753	76,513	1,329,449
2007—2008	566,574	509,115	183,426	68,799	1,327,914
2008—2009	580,905	489,046	174,095	60,548	1,304,594
2009—2010	602,709	467,072	147,291	52,609	1,269,681
2010—2011	628,316	444,107	166,684	45,721	1,284,828
2011—2012	645,523	419,393	79,477	37,908	1,182,301
2012—2013	676,166	394,095	88,834	34,103	1,193,198
2013—2014	702,213	372,336	67,787	30,308	1,172,644
2014—2015	728,688	345,512	71,312	26,782	1,172,294
2015—2016	754,874	316,704	75,126	22,968	1,169,672
2016—2017	790,817	286,767	79,183	18,910	1,175,677
2017—2018	821,462	255,366	83,538	14,556	1,174,922
2018—2019	856,866	220,746	88,134	9,962	1,175,708
2019—2020	897,019	183,894	92,981	5,114	1,179,008
2020—2021	630,000	144,925	0	0	774,925
2021—2022	660,000	119,095	0	0	779,095
2022—2023	690,000	91,375	0	0	781,375
2023—2024	720,000	62,050	0	0	782,050
2024—2025	740,000	31,450	0	0	771,450
	<b>\$ 13,737,841</b>	<b>\$ 6,255,909</b>	<b>\$ 1,742,159</b>	<b>\$ 588,566</b>	<b>\$ 22,324,475</b>



**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

**NOTE 5: GENERAL LONG-TERM OBLIGATIONS**  
**(Continued)**

Maturities of other debt are as follows for the fiscal year ending:

	<u>June 30,</u>	
2006 .....	\$ 205,860	
2007 .....	151,188	
2008 .....	83,220	
2009 .....	76,092	
2010 .....	75,345	
Thereafter .....	<u>230,496</u>	
	<u><b>\$ 822,201</b></u>	

Changes in long-term obligations are as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
<b>Bonds and notes payable:</b>					
Bonds .....	\$ 6,375,000	\$ 9,615,000	\$ (510,000)	\$ 15,480,000	\$ 665,000
Less bond discount .....	0	(192,300)	5,609	(186,691)	0
Deferred gain on QZAB bond .....	0	218,200	(7,884)	210,316	0
<b>Total Bonds and</b> <b>Notes Payable</b>	<u>6,375,000</u>	<u>9,640,900</u>	<u>(512,275)</u>	<u>15,503,625</u>	<u>665,000</u>
<b>Other Liabilities:</b>					
Compensated absences .....	726,495	132,882	(131,946)	727,431	250,405
Other .....	738,711	273,203	(189,713)	822,201	205,860
<b>Total Other Liabilities</b>	<u>1,465,206</u>	<u>406,085</u>	<u>(321,659)</u>	<u>1,549,632</u>	<u>456,265</u>
<b>Total Long-Term Liabilities</b>	<u><b>\$ 7,840,206</b></u>	<u><b>\$ 10,046,985</b></u>	<u><b>\$ (833,934)</b></u>	<u><b>\$ 17,053,257</b></u>	<u><b>\$ 1,121,265</b></u>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 6: PENSION PLANS**

► *Plan Descriptions*

The Simpson County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

► *Funding Policy*

KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 8.48% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2005, 2004 and 2003 were \$250,049, \$214,595 and \$187,263 respectively, equal to the required contributions for each year.

For the year ended June 30, 2005 the Commonwealth contributed \$1,214,657 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2005 were \$62,941, which represents those employees covered by federal programs.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 6:        PENSION PLANS (Continued)**

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits, retirement and insurance benefits for the year ended June 30, 2005 was \$2,729,258 for the governmental funds and \$51,254 for proprietary funds.

**NOTE 7:        CONTINGENCIES**

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE 8:        INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**June 30, 2005**

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**NOTE 9:           RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2005

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**NOTE 10:        EXCESS EXPENDITURES OVER  
APPROPRIATIONS**

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

<u>Fund</u>	<u>Amount</u>
General.....	\$ 169,411
Special Revenue .....	17,896
Capital Outlay .....	109,350
FSPK .....	499,462

**NOTE 11:        FUND TRANSFERS**

Fund transfers for the year ended June 30, 2005 consist of the following:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Matching	\$ 37,232
Operating	Capital Outlay	Debt Service	Debt Service	211,022
Operating	FSPK	Debt Service	Debt Service	329,970
Operating	Capital Outlay	Construction	Construction Cost	175,139
Operating	FSPK	Construction	Construction Cost	773,271
Operating	Construction	Debt Service	Debt Service	281,800

# **Required Supplemental Information**

**SIMPSON COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**For the Year Ended June 30, 2005**

	BUDGETED AMOUNTS		ACTUAL (BUDGETARY BASIS)	VARIANCES FAVORABLE (UNFAVORABLE) FINAL TO ACTUAL
	ORIGINAL	FINAL		
REVENUES				
Local and intermediate sources .....	\$ 4,587,260	\$ 4,587,260	\$ 4,873,569	\$ 286,309
State programs .....	8,601,798	8,996,797	8,984,835	(11,962)
Federal programs .....	10,000	10,000	13,655	3,655
TOTAL REVENUES	13,199,058	13,594,057	13,872,059	278,002
EXPENDITURES				
Current:				
Instruction .....	8,082,534	8,126,665	8,172,054	(45,389)
Support services:				
Student .....	636,695	636,740	631,234	5,506
Instructional staff.....	633,301	636,389	624,481	11,908
District administration.....	391,960	392,920	381,052	11,868
School administration.....	804,198	808,459	789,494	18,965
Business .....	106,392	106,392	105,116	1,276
Plant operations and maintenance .....	2,285,594	2,534,459	2,484,682	49,777
Student transportation.....	922,129	879,144	1,083,342	(204,198)
Other.....	5,987	5,987	5,986	1
Facilities acquisition and construction .....	2,241,013	2,411,875	0	2,411,875
TOTAL EXPENDITURES	16,109,803	16,539,030	14,277,441	2,261,589

<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	(2,910,745)	(2,944,973)	(405,382)	2,539,591
<b>OTHER FINANCING SOURCES (USES)</b>				
Debt proceeds .....	0	0	273,203	273,203
Operating transfers .....	(20,000)	(37,232)	(37,232)	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	(20,000)	(37,232)	235,971	273,203
<b>NET CHANGE IN FUND BALANCE</b> .....	(2,930,745)	(2,982,205)	(169,411)	2,812,794
<b>FUND BALANCE – BEGINNING OF YEAR</b> .....	2,930,745	2,982,205	3,047,785	65,580
<b>FUND BALANCE – END OF YEAR</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 2,878,374</b>	<b>\$ 2,878,374</b>

**EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES**

Inflows/revenues:

Actual amounts (budgetary basis).....	\$ 13,872,059
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	2,729,258

**Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds**

**\$ 16,601,317**

Outflows/expenditures:

Actual amounts (budgetary basis).....	\$ 14,277,441
Differences — budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budget amounts.....	2,729,258

**Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds**

**\$ 17,006,699**



**SIMPSON COUNTY SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL REVENUE FUND**  
For the Year Ended June 30, 2005

	BUDGETED AMOUNTS			VARIANCES FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL
REVENUES				
Local and intermediate sources .....	\$ 40,729	\$ 59,219	\$ 73,672	\$ 14,453
State programs .....	1,281,287	1,292,519	1,209,683	(82,836)
Federal programs .....	1,567,983	1,634,003	1,576,242	(57,761)
TOTAL REVENUES	2,889,999	2,985,741	2,859,597	(126,144)
EXPENDITURES				
Current:				
Instruction .....	2,578,268	2,691,242	2,594,102	97,140
Support services:				
Student .....	46,455	46,455	40,873	5,582
Instructional staff.....	50,618	50,618	51,914	(1,296)
Business .....	17,288	17,288	17,342	(54)
Plant operations and maintenance .....	56,625	56,625	55,500	1,125
Student transportation.....	40,820	40,820	35,069	5,751
Other.....	119,925	119,925	119,925	0
TOTAL EXPENDITURES	2,909,999	3,022,973	2,914,725	108,248

<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(20,000)</u>	<u>(37,232)</u>	<u>(55,128)</u>	<u>(17,896)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers.....	20,000	37,232	37,232	0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>20,000</u>	<u>37,232</u>	<u>37,232</u>	<u>0</u>
<b>NET CHANGE IN FUND BALANCE .....</b>	0	0	(17,896)	(17,896)
<b>FUND BALANCE – BEGINNING OF YEAR.....</b>	<u>0</u>	<u>0</u>	<u>41,723</u>	<u>41,723</u>
<b>FUND BALANCE – END OF YEAR</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 23,827</u></u>	<u><u>\$ 23,827</u></u>

# Supplemental Information

**SIMPSON COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2005**

	SEEK FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Cash .....	\$ 0	\$ 0	\$ 25,389	\$ 25,389
<b>TOTAL ASSETS</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 25,389</b>	<b>\$ 25,389</b>
<b>FUND BALANCES</b>				
<b>FUND BALANCES</b>				
Reserved for:				
Debt service .....	\$ 0	\$ 0	\$ 25,389	\$ 25,389
<b>TOTAL FUND BALANCES</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 25,389</b>	<b>\$ 25,389</b>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2005**

	SEEK FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
<b>REVENUES</b>				
From local sources:				
Taxes:				
Property .....	\$ 0	\$ 478,034	\$ 0	\$ 478,034
Earnings on investments.....	0	0	25,389	25,389
Intergovernmental — state.....	276,811	334,403	252,553	863,767
<b>TOTAL REVENUES</b>	<b>276,811</b>	<b>812,437</b>	<b>277,942</b>	<b>1,367,190</b>
<b>EXPENDITURES</b>				
Debt service:				
Principal.....	0	0	510,000	510,000
Interest .....	0	0	283,545	283,545
Facilities acquisition and construction .....	0	208,658	0	208,658
<b>TOTAL EXPENDITURES</b>	<b>0</b>	<b>208,658</b>	<b>793,545</b>	<b>1,002,203</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>276,811</b>	<b>603,779</b>	<b>(515,603)</b>	<b>364,987</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Payment to escrow agent .....	0	0	(281,800)	(281,800)
Operating transfers.....	(386,161)	(1,103,241)	822,792	(666,610)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(386,161)</b>	<b>(1,103,241)</b>	<b>540,992</b>	<b>(948,410)</b>
<b>NET CHANGE IN FUND BALANCE .....</b>	<b>(109,350)</b>	<b>(499,462)</b>	<b>25,389</b>	<b>(583,423)</b>
<b>FUND BALANCE — BEGINNING OF YEAR .....</b>	<b>109,350</b>	<b>499,462</b>	<b>0</b>	<b>608,812</b>
<b>FUND BALANCE — END OF YEAR</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 25,389</b>	<b>\$ 25,389</b>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**June 30, 2005**

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	DAY CARE	COMMUNITY EDUCATION	ENRICHMENT	TOTAL OTHER ENTERPRISE FUNDS
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash.....	\$ 78,026	\$ 227	\$ 1,391	\$ 79,644
Accounts receivable:				
Accounts .....	3,078	0	0	3,078
<b>TOTAL CURRENT ASSETS</b>	<b>81,104</b>	<b>227</b>	<b>1,391</b>	<b>82,722</b>
<b>NONCURRENT ASSETS</b>				
Fixed assets — net.....	4,118	0	0	4,118
<b>TOTAL ASSETS</b>	<b>\$ 85,222</b>	<b>\$ 227</b>	<b>\$ 1,391</b>	<b>\$ 86,840</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable .....	\$ 589	\$ 0	\$ 0	\$ 589
<b>TOTAL CURRENT LIABILITIES</b>	<b>589</b>	<b>0</b>	<b>0</b>	<b>589</b>
<b>NET ASSETS</b>				
Invested in capital assets.....	4,118	0	0	4,118
Unrestricted.....	80,515	227	1,391	82,133
<b>TOTAL NET ASSETS</b>	<b>84,633</b>	<b>227</b>	<b>1,391</b>	<b>86,251</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 85,222</b>	<b>\$ 227</b>	<b>\$ 1,391</b>	<b>\$ 86,840</b>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2005**

	<u>DAY CARE</u>	<u>COMMUNITY EDUCATION</u>	<u>ENRICHMENT</u>	<u>TOTAL OTHER ENTERPRISE FUNDS</u>
<b>OPERATING REVENUES</b>				
Tuition and fees .....	\$ 227,393	\$ 0	\$ 5,384	\$ 232,777
<b>TOTAL OPERATING REVENUES</b>	<u>227,393</u>	<u>0</u>	<u>5,384</u>	<u>232,777</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages .....	153,519	0	1,804	155,323
Materials and supplies .....	44,609	0	0	44,609
Other operating expenses .....	0	0	2,754	2,754
Deprecation expense .....	1,569	0	0	1,569
<b>TOTAL OPERATING EXPENSES</b>	<u>199,697</u>	<u>0</u>	<u>4,558</u>	<u>204,255</u>
<b>OPERATING INCOME</b>	<u>27,696</u>	<u>0</u>	<u>826</u>	<u>28,522</u>
<b>CHANGE IN NET ASSETS</b> .....	27,696	0	826	28,522
<b>TOTAL NET ASSETS — BEGINNING OF YEAR</b> .....	<u>56,937</u>	<u>227</u>	<u>565</u>	<u>57,729</u>
	\$			
<b>TOTAL NET ASSETS — END OF YEAR</b>	<u><u>84,633</u></u>	<u><u>\$ 227</u></u>	<u><u>\$ 1,391</u></u>	<u><u>\$ 86,251</u></u>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2005**

	DAY CARE	COMMUNITY EDUCATION	ENRICHMENT	TOTAL OTHER ENTERPRISE FUNDS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from user charges .....	\$ 229,100	\$ 0	\$ 5,384	\$ 234,484
Cash payments to employees for services.....	(153,519)	0	(1,804)	(155,323)
Cash payments to suppliers for goods and services .....	(47,906)	0	0	(47,906)
Cash payments for other operating expenses.....	0	0	(2,754)	(2,754)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>27,675</b>	<b>0</b>	<b>826</b>	<b>28,501</b>
<b>NET INCREASE IN CASH .....</b>	<b>27,675</b>	<b>0</b>	<b>826</b>	<b>28,501</b>
<b>CASH — BEGINNING OF YEAR .....</b>	<b>50,351</b>	<b>227</b>	<b>565</b>	<b>51,143</b>
<b>CASH — END OF YEAR</b>	<b>\$ 78,026</b>	<b>\$ 227</b>	<b>\$ 1,391</b>	<b>\$ 79,644</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income .....	\$ 27,696	\$ 0	\$ 826	\$ 28,522
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation .....	1,569	0	0	1,569
Changes in assets and liabilities:				
Receivables.....	1,707	0	0	1,707
Accounts payable .....	(3,297)	0	0	(3,297)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 27,675</b>	<b>\$ 0</b>	<b>\$ 826</b>	<b>\$ 28,501</b>



**SIMPSON COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
**ALL ACTIVITY FUNDS**  
**ALL SCHOOLS**  
**June 30, 2005**

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	<b>CASH</b>	<b>ACCOUNTS RECEIVABLE</b>	<b>ACCOUNTS PAYABLE</b>	<b>DUE TO STUDENT GROUPS</b>
Franklin-Simpson High School .....	\$ 79,167	\$ 7,131	\$ 20,068	\$ 66,230
Franklin-Simpson Middle School .....	19,799	0	0	19,799
Lincoln Elementary School .....	29,272	0	0	29,272
Simpson Elementary School.....	8,370	0	0	8,370
Franklin Elementary School.....	10,980	0	7,101	3,879
	<b>\$ 147,588</b>	<b>\$ 7,131</b>	<b>\$ 27,169</b>	<b>\$ 127,550</b>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**SCHOOL ACTIVITY FUNDS**  
**FRANKLIN-SIMPSON HIGH SCHOOL**  
**June 30, 2005**

	<b>CASH BALANCES</b>	<b>ACCOUNTS RECEIVABLE</b>	<b>ACCOUNTS PAYABLE</b>	<b>DUE TO STUDENT GROUPS</b>
Academic Team .....	\$ 1,023	\$ 0	\$ 0	\$ 1,023
Annual.....	20,970	0	5,560	15,410
Agriproduce.....	3,580	0	0	3,580
Art .....	15	0	0	15
Athletics .....	4,419	0	1,055	3,364
Band .....	1,751	0	0	1,751
Beta .....	2,676	0	0	2,676
Chorus .....	943	0	0	943
Consumer Science.....	851	0	0	851
Concessions .....	430	0	0	430
Diversity .....	729	0	0	729
FBLA.....	2,354	0	0	2,354
FCCLA .....	36	0	0	36
FCA.....	429	0	0	429
Future Farmers .....	8,662	7,131	13,453	2,340
Freshmen.....	482	0	0	482
General .....	4,680	0	0	4,680
HOSA.....	769	0	0	769
Horticulture.....	6,629	0	0	6,629
Hospitality .....	580	0	0	580
Journalism.....	65	0	0	65
Juniors .....	693	0	0	693
Renaissance Club .....	764	0	0	764
SADD.....	1,779	0	0	1,779
School Play .....	959	0	0	959
Student Fees.....	3,814	0	0	3,814
Skills USA .....	261	0	0	261
Sophomores.....	2,049	0	0	2,049
Seniors.....	752	0	0	752
Summer School.....	730	0	0	730
Student Council.....	1,780	0	0	1,780
Teenage Republicans .....	241	0	0	241
Theater/Speech Team.....	150	0	0	150
Textbook Rental .....	150	0	0	150
Teachers' Vending .....	910	0	0	910

	<b>CASH BALANCES</b>	<b>ACCOUNTS RECEIVABLE</b>	<b>ACCOUNTS PAYABLE</b>	<b>DUE TO STUDENT GROUPS</b>
Vending.....	795	0	0	795
Video Prod .....	792	0	0	792
Young Democrats .....	475	0	0	475
<b>TOTAL</b>	<b>\$ 79,167</b>	<b>\$ 7,131</b>	<b>\$ 20,068</b>	<b>\$ 66,230</b>

**SIMPSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2005**

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed-Through State Department of Education:			
National School Lunch Program .....	10.555	57505 02	\$ 454,948
School Breakfast Program .....	10.553	57505 02	124,227
Passed-Through State Department of Agriculture:			
Food Distribution Program .....	10.555	—	70,484
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>649,659</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed-Through State Department of Education:			
Title I — 2004 .....	84.010	35104 01	119,473
Title I — 2005 .....	84.010	35105 01	431,873
Migrant Education Basic — 2004 .....	84.011	35204 02	2,401
Migrant Education Basic — 2005 .....	84.011	35205 02	5,231
Title V — 2004 .....	84.298A	53304 02	17,208
Title V — 2005 .....	84.298A	53305 02	11,873
IDEA — Part B Special Education — 2004 .....	84.027	58104 02	118,447
IDEA — Part B Special Education — 2005 .....	84.027	58105 02	350,036
IDEA — Part B Preschool — 2004 .....	84.173	58704 02	21,102
IDEA — Part B Preschool — 2005 .....	84.173	58705 02	27,097
Child Find — 2005 .....	84.027	58105 02	20
Child Find — 2004 .....	84.027	58104 02	2,800
Child Find — 2003 .....	84.027	58103 02	2,800
Child Find — 2002 .....	84.027	58102 02	1,830
ES Assessment .....	84.027	58104 02	1,016
RTC — Discretionary — 2005 .....	84.173	58105 02	207,516
RTC — Discretionary — 2004 .....	84.173	58104 02	437
Summer Institute .....	84.173	58104 02	6,713
Title IV — Safe & Drug Free Schools — 2003 .....	84.186A	59003 02	12,367
Title IV — Safe & Drug Free Schools — 2002 .....	84.186A	59002 02	10,045
Vocational Education — Carryforward .....	84.048	46202 32	(646)
Vocational Education — Carryforward .....	84.048	46204 32	1,295
Vocational Education — Basic — 2005 .....	84.048	46205 32	31,445
Title II-D — Education Technology .....	84.318	73604 02	5,405
Title II-D — Education Technology .....	84.318	73605 02	5,669
Teacher Quality — 2004 .....	84.367A	71004 02	18,166
Teacher Quality — 2005 .....	84.367A	71005 02	135,602

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
Passed-Through State Work Force Cabinet:			
Adult Education — Development Funds .....	84.002		4,470
Adult Education — State Administration Basic — 2002.....	84.002		486
Adult Education — State Administration Basic — 2004.....	84.002		1,837
Adult Education — State Administration Basic — 2005.....	84.002		13,566
Adult Education — Corrections — 2004.....	84.002		295
Adult Education — Corrections — 2005.....	84.002		6,561
Adult Education — Staff Development — 2004.....	84.002		323
Adult Education — Staff Development — 2005.....	84.002		1,458
			<hr/>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>1,576,217</b>
			<hr/>
<b>CORPORATION FOR NATIONAL SERVICE</b>			
Passed-Through Kentucky Council on Higher Education:			
Kentucky Reads — 2003 .....	94.006		25
			<hr/>
<b>TOTAL CORPORATION FOR NATIONAL SERVICE</b>			<b>25</b>
			<hr/>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 2,225,901</b>
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**SIMPSON COUNTY SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2005**

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**NOTE 1:      BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of ***Simpson County School District*** and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**For the Year Ended June 30, 2005**

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● **04-1 Grant Compliance**

**US Department of Agriculture**  
**School Breakfast, Lunch and Food Distribution Programs**  
**CFDA No. 10.533, 10.555 and 10.550**  
**Grant No. 57604 02**  
**For the Year Ended June 30, 2004**

*Condition and Criteria:* The District did not maintain documentation of time and effort for certain personnel which had less than 100% of their time charged to the grant in accordance with OMB Circular A-87, Attachment B.

*Effect:* Time and effort records were not obtained in accordance with OMB Circular A-87, Attachment B. However, other supportive documentation was maintained to provide evidence cost was appropriately spent. No questioned cost resulted from this finding.

*Cause:* The District payroll personnel were unfamiliar with compliance requirements under OMB Circular A-87, Attachment B, requiring certain documentation of time and effort of personnel who are charged to multiple grant programs based on actual time spent.

*Auditor Recommendation:* Employees paid in part from a single federal program must maintain time and effort records that document the portion of time and effort spent to a specific single federal program.

*Grantee Response:* In compliance with the requirements and by the next quarter end, a document will be kept in the office of the director to provide evidence of time and effort put into this program. This document will be updated weekly to show time and effort. This issue will also take place with those people who are not full-time. They will turn in weekly time sheets to provide documentation of allocated salary.

*Current Status:* The corrective action plan was implemented and no other findings were noted.

**SIMPSON COUNTY SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**  
**For the Year Ended June 30, 2005**

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**US Department of Education**  
**Title I — CFDA No. 84.010**  
**Grant No. 35103 01 and 35104 01**  
**For the Year Ended June 30, 2004**

*Condition and Criteria:* The District did not maintain documentation of time and effort for personnel in accordance with OMB Circular A-87, Attachment B.

*Effect:* At a minimum, semi-annual certifications were not obtained from employees who work solely on one grant program and time records for personnel with time spent on multiple grants were not maintained in accordance with OMB Circular A-87, Attachment B. However, other supportive documentation was maintained to provide evidence cost was appropriately spent. No questioned cost resulted from this finding.

*Cause:* The District payroll personnel were unfamiliar with compliance requirements under OMB Circular A-87, Attachment B, requiring certification of time and effort of personnel who work solely on one grant program and requirements for personnel charged to multiple grants.

*Auditor Recommendation:* Employees paid in whole from a single federal program must provide a certification of time and effort that documents the portion of time and effort spent to the single federal program. In addition, employees paid in part from a single federal program must maintain time and effort records that document the portion of time and effort spent to a specific single federal program.

*Grantee Response:* In compliance with the requirements of Title I and by the next quarter end, a document will be kept in the office of the Title I director to provide evidence of time and effort put into this program. This document will provide evidence that the 10%, the amount of grant that pays the director's and her secretary's salary, is being used for Title I issues. This document will be updated weekly to show time and effort relating to Title I. This issue will also take place with those people who are not full-time Title I people. They will turn in weekly time sheets to provide documentation of allocated salary from Title I. Also, semi-annual certifications will be obtained from employees who work solely on one grant program.

*Current Status:* The District has not implemented their corrective action plan. They have taken measures to correct the above condition by December 31, 2005.





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Simpson County School District  
Franklin, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of ***Simpson County School District*** as of and for the year ended June 30, 2005, which collectively comprise ***Simpson County School District's*** basic financial statements and have issued our report thereon dated September 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

● **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control

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components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated September 7, 2005.

#### ● Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Audit Requirements*.

This report is intended solely for the information and use of the members of the **Simpson County Board of Education**, Kentucky State Committee for School Districts, and management of **Simpson County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Holland CPAs, PSC*

Russellville, Kentucky  
September 7, 2005



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Simpson County School District  
Franklin, Kentucky

● **Compliance**

We have audited the compliance of ***Simpson County School District*** (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*;. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect

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on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 04-1.

#### ● **Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Simpson County School District

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This report is intended solely for the information and use of the members of the **Simpson County Board of Education**, Kentucky State Committee for School Districts, management of the **Simpson County School District**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAs, PSC

Russellville, Kentucky  
September 7, 2005

**SIMPSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2005**

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**SECTION I — SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that  
are not considered to be material  
weakness(es)? ☐ Yes ☒ None reported

Noncompliance material to financial  
statements noted? ☐ Yes ☒ No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reportable condition(s) identified that  
are not considered to be material  
weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on  
compliance for major programs: unqualified

Any audit findings disclosed that are required  
to be reported in accordance with section  
510(a) of Circular A-133? ☐ Yes ☒ No

**SIMPSON COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**For the Year Ended June 30, 2005**

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Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553 / 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish  
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes      No

**SECTION II — FINANCIAL STATEMENT FINDINGS**

None.

**SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See prior year findings.